Math.-Econ.
Library

MONTHLY REVIEW

Of Credit and Business Conditions

FEDERAL RESERVE BANK OF NEW YORK

VOLUME 37 AUGUST 1955 No. 8

MONEY MARKET IN JULY

The reserve positions of member banks remained under limited pressure during most of July, and the money market continued moderately tight. Meanwhile, rising private demands for credit were supplemented during the month by Treasury borrowing of 3.4 billion dollars to meet part of its cash needs for the first half of the 1956 fiscal year. In this setting, the attention of the market was drawn increasingly to the possibility that seasonal credit demands, augmented by further expansion in the levels of business activity over the balance of the year, would press against the available supply of funds and lead to higher interest rates. Despite the cautious atmosphere prevailing, the response of investors to the Treasury's major financing operations during the month—including the advance refunding of 8.5 billion dollars of certificates of indebtedness maturing August 15 as well as sizable cash offerings —was highly favorable.

Quotations for outstanding Government obligations, however, were strongly influenced over the second half of July by the market's expectations of rising interest rates. The downward trend in prices of longer-term securities, which has persisted with some interruptions since late in 1954, accelerated sharply. Toward the end of the month, quotations for most long-term issues reached their lowest levels since September of 1953. Yields on short-term Government securities also rose to the highest point in almost two years. The average issuing rate for 90-day Treasury bills increased steadily over July from a rate of 1.401 per cent for the last issue in June to a peak of 1.720 per cent for the issue dated July 28.

Several other money market rates tended to rise during July. At the start of the month, a 3 per cent rate for loans to dealers secured by their holdings of corporate or municipal securities became general, after being initiated by a few banks late in June, and on July 27 further increases to 3¼ per cent were announced. The prior rate, adopted in March 1954, had been 2¾ per cent. On July 20, dealers in short-term commercial paper announced an increase of ⅛ per cent in rates for that type of paper, bringing the quotation for prime 4-to-6 months' notes to a range of 2⅛-2¼ per cent. Quotations for bankers' acceptances remained unchanged, however, as demand considerably exceeded the seasonally reduced supply in the market at the prevailing level of rates.

MEMBER BANK RESERVE POSITIONS

Sizable purchases of Government securities by the Federal Reserve System softened the impact of other market factors, such as seasonal currency demands and fluctuations in float and in Treasury balances in the Reserve Banks, which sharply reduced bank reserves in early July and, to a lesser extent, toward the end of the month. Member banks nonetheless found it necessary to seek substantial additional accommodation from the Reserve Banks through discounts. During the first two statement weeks, borrowings averaged about 630 million dollars and, for the full four weeks ended July 27, nearly 500 million dollars. This average level for the month was attained despite a sharp drop early in the July 20 statement week, when an expansion in float and a seasonal return flow of currency temporarily supplied a substantial volume of funds to the banks. Over the same four weeks, excess reserves (which continued to be concentrated among country banks) averaged 607 million dollars. Indicative of the relatively steady pressure in the money market, the quotation for Federal funds was maintained at 1 11/16 per cent—just below the 1¾ per cent discount rate—except for relatively brief periods during the middle and near the end of the month; at the close, trading actually occurred at 1¾ per cent, a rather unusual development.

As shown by Table I, the contraction in member bank reserve positions over the first two weeks of the month resulted

CONTENTS

Money Market in July 89
International Monetary Developments 92
Capital Markets in the First Half of 1955..... 93
Monetary Policy in Scandinavia 96
Treasury Financing in the Fiscal Year 1955.. 100
Department Store Trade 103
Selected Economic Indicators 104

Table I
Weekly Changes in Factors Tending To Increase or Decrease Member Bank Reserves, July 1955

(In millions of dollars; (+) denotes increase, (—) decrease in excess reserves)

Factor	Daily averages—week ended				Net changes
	July 6	July 13	July 20	July 27	
Operating transactions					
Treasury operations*	− 96	− 8	+ 34	− 70	−140
Federal Reserve float	+ 69	+ 55	+205	−203	+126
Currency in circulation	−277	−118	+129	+130	−136
Gold and foreign account	+ 59	− 57	− 34	+ 22	− 10
Other deposits, etc	−182	+ 48	+ 5	+ 15	−114
Total	−425	− 81	+339	−106	−273
Direct Federal Reserve credit transactions					
Government securities:					
Direct market purchases or sales	+138	+251	0	+ 92	+481
Special certificates of indebtedness	0	0	0	0	0
Held under repurchase agreements	+ 11	+ 3	− 14	+105	+105
Loans, discounts, and advances:					
Member bank borrowing	+233	− 3	−330	+ 93	− 7
Other	0	0	+ 1	− 11	− 10
Bankers' acceptances:					
Bought outright	− 1	0	− 1	− 3	− 5
Under repurchase agreements	0	0	0	0	0
Total	+381	+251	−344	+277	+565
Total reserves	− 44	+170	− 5	+171	+292
Effect of change in required reserves†	+ 72	+ 43	−140	−159	−184
Excess reserves†	+ 28	+213	−145	+ 12	+108
Daily average level of member bank:					
Borrowings from Reserve Banks	635	632	302	395	491
Excess reserves†	517	730	585	597	607

Note: Because of rounding, figures do not necessarily add to totals.
* Includes changes in Treasury currency and cash.
† These figures are estimated.

largely from an increase in the amount of currency in circulation around the Fourth of July holiday and from a rebuilding of the Treasury's working balances, which had been depleted during the third week of June in anticipation of corporate tax receipts. As the drain on reserves caused pressures in the money market to mount perceptibly, the Federal Reserve System took offsetting action through a series of outright purchases of Treasury bills totaling almost 400 million dollars over the two weeks ended July 13. Further funds were supplied to the market by the System from time to time on a short-term basis through repurchase agreements with dealers in Government securities.

Following the typical pattern, reserve positions expanded over the middle of the month, but the period of relative ease was short-lived. By the end of the July 20 statement week, reserve positions had again tightened. Float contracted, there was an unexpectedly rapid increase in the Treasury's balance, and required reserves rose after banks paid for their allotments of the new March tax anticipation certificates on July 18 by credits to Treasury Tax and Loan Accounts on their books.

The renewed pressures were again partially alleviated by purchases of 95 million dollars of Treasury bills by the System Open Market Account during the final statement week of the month. Additional funds were supplied through repurchase agreements with dealers; such agreements averaged 105 million dollars over the week. Finally, the pressures were further reduced when the Treasury postponed a scheduled 100 million dollar call on Tax and Loan Account balances at Class B banks from July 22 to July 26.

According to an announcement at the end of the month, management of the Treasury's working balances at the Federal Reserve Banks will be facilitated in the future through a more flexible procedure for withdrawing funds from Tax and Loan Accounts. Under the new procedure, a new class of depositary banks, to be known as Class C depositaries, was established on July 29. The Class C banks consist of all those holding total deposits of 500 million dollars or more as of the latest call report. Withdrawals from the Tax and Loan Accounts at these banks will normally be scheduled in the usual manner, but, when the Treasury anticipates at the start of a day that its working balances will deviate widely from desired levels, the outstanding calls on the Class C banks for that day may be increased, decreased, or revoked. Such adjustments are expected to be required only infrequently, and the Treasury will endeavor to equalize the percentage withdrawals from Class B and C banks over relatively short periods.

Treasury Financing Operations

The bulk of the Treasury's summer cash needs were met through an offering, announced on July 5, of 2 billion dollars of 1⅞ per cent tax anticipation certificates to mature March 22, 1956 and an additional 750 million dollars of the 3 per cent bonds of 1995. About 1.9 billion dollars of the 3 per cent bonds had been issued in February of this year. On July 18, the Treasury announced the last major financing operation scheduled for this summer by offering to exchange, on August 1, for the 8.5 billion dollars of 1⅛ per cent certificates of indebtedness scheduled to mature on August 15 either a 2 per cent tax anticipation certificate to mature June 22, 1956 or an additional amount of the 2 per cent notes maturing on August 15, 1956. In addition to these large offerings, 400 million dollars of cash was obtained through successive 100 million dollar additions to the weekly issue of Treasury bills; the first of these additions had been announced late in June.

Each of these offerings was carefully tailored to fit the prevailing market situation. The new tax anticipation certificates were particularly well suited to the needs of corporate investors, who have been actively seeking temporary outlets for tax reserves and other funds in the short-term Government securities market over recent months. Furthermore, bank underwriting of the cash offering of March tax certificates was encouraged by permitting the banks to make payment through Tax and Loan Accounts. A heavy oversubscription to this issue was anticipated, and the announcement on July 12 that subscriptions totaled 10.6 billion indicated that the response had exceeded expectations. Allotments were limited to 19 per cent, and the new issue subsequently reached premiums as high as 5/64 (bid) in the secondary market, although the price had dropped back close to par by the end of the month.

The offering of 3 per cent bonds was directed particularly toward savings-type investors, such as pension funds, trust

funds, and insurance companies, which have been a source of limited, but persistent, demand for this issue since its original appearance in February 1955. These investors were permitted to defer part of their payment beyond the July 20 payment date, with the final instalment not required until October 3. The Treasury reserved the right to provide for differential allotments, thereby helping to insure that long-term investors received the bulk of the offering.

The reopening of the long bonds had been expected by the market, and the price of the 3's had fallen more than a full point from its early June peak to a level of 100$^{7}/_{32}$ (bid) immediately prior to the announcement. Thereafter, trading took place at prices ranging between 100$^{11}/_{32}$ and 100$^{1}/_{16}$; changing expectations regarding allotment percentages were partly responsible for the fluctuations. This period of uncertainty was ended on July 14, when the Treasury announced that savings-type institutions had been allotted almost two thirds of the offering on an allotment ratio of 65 per cent; all other large subscribers were awarded 30 per cent of their subscriptions.

Reflecting the attractiveness of the exchange offering on the August 15 certificates, the "rights" went to a premium as high as $^{5}/_{64}$ (bid) following the announcement. The "rights" premium later tapered off, however, to only $^{1}/_{64}$ before the books closed on July 22, apparently as a result of the tight money market and the heaviness of the securities market in general. Trading in the maturing issue was not heavy, although dealers absorbed some offerings, and the attrition amounted to only 150 million dollars, 5½ per cent of the 2.7 billion dollars of the maturing issue held outside the Federal Reserve Banks. Of the exchanged holdings, 1.5 billion dollars went into the 2 per cent June tax anticipation certificates, and 1.1 billion dollars of the public holdings (in addition to the 5.8 billion dollars of Federal Reserve holdings) went into the reopened 2 per cent notes of August 1956.

Government Securities Market

The Government securities market was quiet during the first half of July when the Treasury's cash financing operations were under way. Later in the month, however, activity expanded, and prices became increasingly vulnerable to expectations that expanding credit demands later this year would push interest rates upward. As a result, prices of long-term issues, which had been fairly steady early in the month, declined rapidly and losses ranging up to 1¾ points were recorded between June 30 and July 29, the last trading day of the month. Prices of intermediate and short-term issues also fell, reflecting not only the expectations of higher interest rates, but also the continuing pressures in the money market and a slackening in the corporate demand for outstanding issues that had been a feature of the market earlier this year. By the end of the month, yields for Government securities ranged between 1.75 per cent for three-month bills to 3.03 per cent for the 3 per cent bonds of 1995, the highest structure of yields since the fall of 1953.

In the first half of the month, sporadic selling of intermediate and long-term issues by commercial banks, and to a more limited extent by nonbank investors, had met with little buying interest, but losses were generally limited to declines of ½ of a point or less on the issues maturing between 1968 and 1972. Following the Treasury's announcement of its advance refunding program, however, the market focused its attention more closely upon the possibility of an increase in the Reserve Bank discount rate or the commercial bank prime loan rate once the financing operation was out of the way. Consequently, price declines accelerated as investor demand (aside from that associated with switches) dwindled further, and some of the longer-term 2½ per cent issues lost as much as 1¼ points over the last two weeks.

The 3 per cent bonds resisted the decline initially, but a gradually mounting supply from market professionals, commercial banks, and others resulted in increasing pressure on the price of that issue. As the price approached par, some subscribers to the new issue apparently pressed offerings on the market, mostly in small lots, and on July 21 dealers' bid quotations dropped below 100 for the first time since this security was issued in February of this year. At that point, the selling pressure appeared to taper off temporarily, in part because some holders were reluctant to sell below par, but offerings from both professional sources and scattered investors met with only limited investment demand over the final week. Moreover, the narrowing yield spread between the 3's and other long-term issues encouraged some switching out of the 3's, and by July 29 the quotation had declined to 99⅛ (bid), off more than one point for the month.

Yields for the longest-dated issues of Treasury bills rose intermittently during the first half of the month, largely in adjustment to the successively higher issuing rates for the enlarged weekly issues. Yields for shorter-dated bills were firm, on the other hand, as the System's purchases supplemented a continuing nonbank demand. On July 15, however, a substantial volume of offerings reached the market from corporations preparing to take up allotments of the new tax anticipation certificates, and yields rose by as much as 15 basis-points for the shortest-dated issue. Subsequently, commercial banks, which apparently absorbed a substantial volume of the bills sold by corporations over the midmonth period, resumed liquidating bills in the market on a moderate scale as their reserve positions came under renewed pressure. With nonbank buying significantly reduced, partly because the new tax anticipation issues siphoned off part of the corporate demand, there were upward adjustments in the yields for all maturities. At the end of the July, bid quotations for outstanding issues ranged from 1.75 per cent for the longest-dated issue to 1.80 per cent for the shortest-dated, a rise of 28 basis-points and 55 basis-points, respectively, over the month.

Member Bank Credit

Total loans of the weekly reporting member banks increased further during the last week in June and the first three weeks

of July, reflecting principally the continued rapid expansion of real estate and consumer credit. "All other loans" (largely those to consumers) rose by 230 million over the four-week period, while real estate loans increased by 109 million, in each case roughly maintaining the record rate of growth established in the first half of the year. As indicated by Table II, security loans also rose sharply during the week ended July 20, reflecting almost entirely loans extended to Government security dealers by New York and Chicago banks.

Table II
Weekly Changes in Principal Assets and Liabilities of the Weekly Reporting Member Banks
(In millions of dollars)

Item	Statement weeks ended				Change from Dec. 29, 1954 to July 20, 1955
	June 29	July 6	July 13	July 20	
Assets					
Loans and investments:					
Loans:					
Commercial, industrial, and agricultural loans	+ 68	−175	+139	− 63	+ 979
Security loans	+ 28	+ 8	− 30	+ 214	+ 259
Real estate loans	+ 45	+ 20	+ 30	+ 14	+ 761
All other loans (largely consumer)	+124	− 1	+ 33	+ 74	+1,019
Total loans adjusted*	+265	−156	+169	+ 238	+2,945
Investments:					
U.S. Government securities:					
Treasury bills	− 65	−105	− 45	+ 449	−1,225
Other	−162	−174	− 89	+ 453	−3,112
Total	−227	−279	−134	+ 902	−4,337
Other securities	− 15	+ 58	−117	+ 16	+ 55
Total investments	−242	−221	−251	+ 918	−4,282
Total loans and investments adjusted*	+ 23	−377	− 82	+1,156	−1,337
Loans to banks	−109	+123	+ 55	− 59	+ 283
Loans adjusted* and "other" securities	+250	− 98	+ 52	+ 254	+3,000
Liabilities					
Demand deposits adjusted	−971	−820	+777	− 247	−2,579
Time deposits except Government	+ 34	− 51	− 44	− 8	+ 153
U. S. Government deposits	+544	−398	−458	+1,771	+1,550
Interbank demand deposits:					
Domestic	− 33	+754	+ 72	− 405	− 830
Foreign	+ 37	− 22	− 25	+ 26	+ 31

* Exclusive of loans to banks and after deduction of valuation reserves; figures for the individual loan classifications are shown gross and may not, therefore, add to the total shown.

In contrast to these increases, commercial, industrial, and agricultural loans showed a small net decline of 31 million dollars over the period. However, a sizable contraction might have been expected, especially in view of the extraordinarily large volume of business borrowing during the June tax period. Commercial, industrial, and agricultural loans normally decrease during July; in the comparable weeks of the three previous years, for instance, these loans declined by between 126 and 338 million dollars.

Changes in the Government security portfolios of the weekly reporting member banks during the week ended July 20 showed the effect of the Treasury cash financing. Total Government security holdings increased by 902 million dollars during that week, of which 417 million was in certificates. Holdings of bills also rose sharply, apparently indicating substantial absorption of bills sold by corporations preparing to take up their allotments of the new tax certificates. Prior to the week ended July 20, the reporting banks had continued to liquidate Government securities of all types, and total bill holdings had declined to only 869 million dollars on July 13, the lowest figure since late in 1947, only a few months after the Treasury bill rate had been "unpegged" from the wartime level of ⅜ per cent.

INTERNATIONAL MONETARY DEVELOPMENTS

Monetary Trends and Policies

The policies of monetary restraint to which many foreign countries had shifted during the first half of 1955 were generally maintained or further emphasized during July. In Great Britain, where monetary policy had been significantly tightened earlier this year, the Chancellor of the Exchequer announced further restrictions on consumer credit and asked the Bank of England to impress on the commercial banks the importance of achieving "a positive and significant reduction in the total of bank advances outstanding". He also stated that capital expenditures by the nationalized industries would be postponed or slowed down insofar as possible, and that those by local governments would likewise have to be restricted. In announcing these measures, the Chancellor said that the British economy was fundamentally sound and its difficulties marginal, but that the government was not satisfied with the trend of Britain's balance of payments. Earlier in July, the London clearing banks had called attention to the government's restrictive credit policy by appealing to the public to "cooperate with the banks by keeping their credit requirements as small as possible". In addition, the authorities had increased the interest rates on new loans by the Public Works Loan Board to local governments in order to bring them more in line with market yields, and had also raised the interest rate on tax reserve certificates offered by the Treasury. Furthermore, the nationalized gas industry had floated a bond issue intended in part for the repayment of its outstanding bank loans. This was regarded in London as a first step in the funding of the nationalized public utilities' bank debts, which had strongly contributed to the steady growth of bank lending.

In New Zealand, the central bank discount rate and the cash reserve requirements of the commercial banks were increased effective July 1. The raising of the reserve requirements has substantially increased the commercial banks' reserve deficiencies, which presumably will have to be made good by increased borrowing from the central bank. Later in the month, the Finance Minister imposed controls on instalment credit, stating that its growth had contributed to the high level of imports

and spending. These July measures follow a number of other recent moves to curb excessive demand in the New Zealand economy; the latter included rises in the reserve requirements in June and in the discount rate last November, and the tightening of government controls over building and construction.

In Australia, where recent balance-of-payments difficulties had been countered mainly by import restrictions, the central bank asked the commercial banks not to grant new or additional overdrafts for instalment financing. The governor of the central bank expressed the hope that funds raised outside the banking system by the so-called hire-purchase companies would be used at least in part to reduce their borrowings from the banks. Total instalment credit is estimated to have risen by 23 per cent during the year ended March 1955.

Interest rate movements in most major financial centers abroad were small. In Britain, however, the prices of government bonds, which had rallied in the first part of July, fell sharply after the middle of the month but recovered somewhat in the last days of July; the yield of 2½ per cent Consols rose to 4.35 per cent on July 25, the highest since August 1952, compared with a July low of 4.11 per cent. The average Treasury bill tender rate, on the other hand, remained at 3.97 per cent during the weekly tenders in July. In Canada, the two months' rise in the average tender rate for three months' Treasury bills leveled off in July, the rate standing at 1.43 per cent on July 28, while in the Netherlands the market rate for Treasury bills with three months to maturity was unchanged at ¾ per cent. In Switzerland, the call money rate continued to fluctuate slightly above 1 per cent, while long-term government bond yields declined somewhat in the first half of the month.

Exchange Rates

The downward pressure on American account sterling that was apparent during June continued through most of July. Until July 25, the rate fluctuated between $2.78⅜ and $2.78⅜, with the British authorities reportedly intervening from time to time. The weakness of sterling was also evident in wider spreads between spot and forward rates; the discount on three months' sterling increased, on a per annum basis, from about 2 per cent on July 1 to 3⅜ per cent on July 25. Transferable sterling and securities sterling, both of which had shown strength during June, also tended to weaken; transferable declined from a close of 2.76^{13}/_{16}$ on July 1 to $2.75¼ on July 22, while securities sterling fell from $2.78⅛ to $2.76¾. The general decline in rates was partly seasonal in nature, but was also attributed to balance-of-payments developments of a nonseasonal character and to persistent rumors in the market that the official support margins of $2.78-$2.82 might be changed. Following strong denials by British officials that devaluation was contemplated and the announcement of further measures to curb domestic demand, sterling rates began to strengthen on July 25. American account sterling moved upward to as high as 2.79^{3}/_{16}$ on July 27, reflecting both commercial demand and demand for sterling cover by those with short positions in the market. While rates tended to weaken again subsequently, they remained above the July 22 lows at the market's close on July 29, with American account at $2.78¾, transferable at $2.76½, and securities sterling at $2.77¼; the discount on three months' sterling narrowed to 2¾ per cent per annum.

Rising Treasury bill rates in the United States reduced the differential against the average yield at tender on new British Treasury bills to about 2¼ per cent. With the increased discount on three months' sterling noted above, it was no longer possible after July 8 to realize additional earnings by moving funds from New York to London for investment in bills covered by sales of forward sterling.

The Canadian dollar generally tended to be firm, the rate moving from an opening quotation of 1.01^{7}/_{16}$ on July 1 to a close of $1.01⅜ on July 29.

Effective July 1, the par value of the Nicaraguan córdoba was changed from 5 to 7 per United States dollar. The previous par value had in recent years applied only to government payments; the new par value has actually served as the basic import rate for the córdoba since November 1950. On July 31, Pakistan announced a change in the par value of the rupee from 3.3 to 4.8 per United States dollar.

CAPITAL MARKETS IN THE FIRST HALF OF 1955

Demands for long-term funds in the capital market[1] pressed against a limited supply of investable funds in the first half of 1955, with the result that borrowers encountered moderately rising costs in raising new capital and refunding outstanding securities. Conditions in the capital market were orderly throughout the first six months of the year, and both borrowers and lenders made the transition to higher yields without serious strains appearing. In part, this reflected the fact that the shift to tighter money conditions had been expected by the market and, in part, was the fortuitous result of a rather even pressure of total demand for long-term funds, with no sizable bunching of demands from different sectors of the market at any one time. The stock market, on the other hand, was in a rising phase throughout most of the period.

Accompanying the vigorous recovery in domestic business activity, the total of capital funds raised in the first six months of 1955 registered a sizable increase over the first half of 1954, when business activity was declining and borrowing costs were tending downward. Although net demands by governmental units declined from the levels of both the previous six months and the first half of 1954, demands for corporate and mortgage

[1] As here defined, the capital market comprises the markets for private securities (including private placements), Federal, State, and local government bonds, and real estate mortgages.

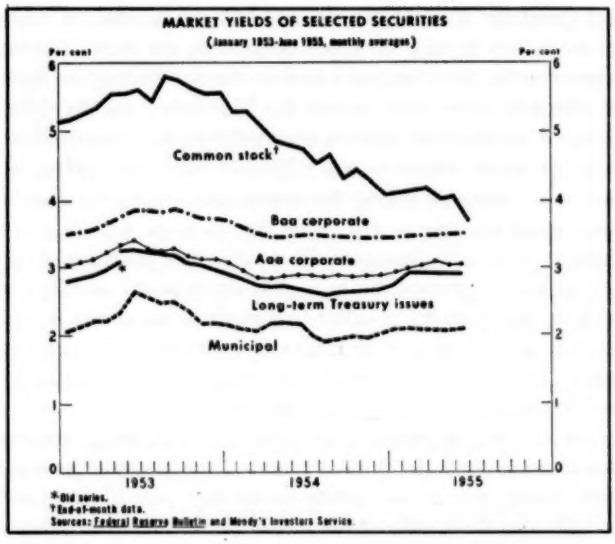
financing during the first half of 1955 exceeded those of the two previous half-year periods.

On the supply side, the Federal Reserve shifted from the policies of "active ease" that had been followed during the period of mildly depressed economic conditions in 1954. The redirection of policy was widely anticipated by the market, and was an important factor in the slight upward adjustment in the pattern of yields on long-term investments, especially at the end of 1954 and during the early weeks of 1955. The flow of individual savings into the capital market through savings institutions failed to maintain the previous rate of increase, further accentuating the upward pressure on yields.

Market Reception of New Offerings

On balance, the Treasury repaid previous borrowing during the first half of 1955. Net cash repayments totaled 5.0 billion, compared with net cash repayments of 5.7 billion in the corresponding period of last year, and net cash borrowing of 6.6 billion during the second half of 1954. Included in the February exchange offering was an issue of 3 per cent, forty-year bonds, which, in effect, established a "benchmark" to which rates on other long-term obligations could be related. The flotation of the forty-year bonds, the longest security issued by the Treasury since 1911, was very favorably received in the market, and remained the center of buying interest in longer-term Governments throughout the remainder of the period.

According to preliminary estimates, a gross aggregate of about 5.0 billion dollars in corporate debt and equity securities was offered for cash sale in the market during the first six months of 1955, compared with 4.3 billion and 5.3 billion in the first and second halves of 1954, respectively.[2] Increased demands upon the capital markets by manufacturing corporations and by financial and real estate concerns were responsible for the fairly high level of corporate securities offered for cash in the first half of 1955, since the flotations by the public utility, transportation, communication, and commercial corporations registered declines from the previous half year. Anticipating a long-term Treasury issue, investors were slow to take up new offerings of corporate bonds in January, and moderate price concessions proved necessary to move dealer inventories. The heavy volume of corporate issues in March was marketed with less difficulty, since underwriters bid more cautiously for new offerings, and unsold balances of earlier issues had been cleared through price reductions. Corporate issues in the second quarter of the year were somewhat lighter than in the first quarter, but investors tended to back away from high-



grade bonds until early June, when the shrinking supply, accompanied temporarily by rising prices of long-term Governments, increased the attractiveness of corporate bonds. In the latter part of June, however, rumors that the forty-year Treasury bond issue would be reopened tended to curtail demand for corporate issues.

The proportion of equity to debt financing by corporations has increased in recent months. Preferred and common stock represented 33 per cent of total corporate offerings in the first half of 1955, compared with 21 per cent in 1954 and 20 per cent in 1953. (The flotation of 330 million dollars of common stock by General Motors Corporation in March 1955 was in large measure responsible for the recent increase; this large single offering accounted for one quarter of the common stock issued in the first six months of 1955.) Growing public interest in common stock, stemming in considerable measure from increased dividend payments and improved profit prospects, has apparently led corporations to turn increasingly to equity issues in raising new capital, and the rise in share prices has enabled them to issue stock with less dilution of equity. Corporate profits before taxes jumped from a seasonally adjusted annual rate of 36.0 billion dollars in the last quarter of 1954 to 40.9 billion in the first quarter of 1955, and to an estimated 42.5 billion in the second quarter of 1955; cash dividends rose to an annual rate of 10.4 billion dollars in the first half of 1955, an increase of 7 per cent over the corresponding period of 1954.

State and local government demands on the capital market proved to be relatively light during most of the first half of 1955, although they were increasing at the close of the period. Gross long-term State and local government offerings for the half-year period amounted to 2.8 billion, compared with 3.7 billion and 3.2 billion in the first and second halves of 1954, respectively. Legal difficulties, which forced repeated post-

[2] Excluding offerings in this market by foreign borrowers, but including offerings that do not pass through the market, and with allowance for retirement of securities through the use of internal corporate funds as well as refunding issues, the resultant net increase in outstanding corporate securities was somewhat over 3.5 billion dollars in the first half of 1955, against 3.4 billion and 2.9 billion in the first and second halves of 1954, respectively.

ponement of various large turnpike issues, were the principal cause of the reduced offerings and contributed to continued market uncertainty through March. Dealer inventories began rising in May, and the heavy calendar of June offerings encountered investor resistance, particularly after market discussion that the forty-year Treasury issue might be reopened. In the latter part of June, dealers began making price concessions in order to liquidate large unsold balances in preparation for a heavy volume of expected offerings.

A record level of mortgage borrowing was facilitated by the continued interest of various types of savings institutions in acquiring this high-yielding form of investment. Outstanding mortgage debt rose by an estimated 7.7 billion dollars during the first half of 1955, compared with 5.2 billion in the same period last year and 7.3 billion in the last half of 1954. There were indications that mortgage acquisitions by some institutions were greater than the net inflow of individual savings, and, in a number of cases, borrowing in the form of "warehousing" arrangements, direct loans from commercial banks, and advances from the Federal Home Loan Banks became necessary in order to acquire mortgages for which commitments had been made. The increase in real estate loans of all commercial banks during the first half of 1955 amounted to about 1.3 billion dollars, which compares with an increase of 0.5 billion dollars in the first half of 1954 and is larger than in the corresponding period of any other recent year.

Rise in Borrowing Costs

A moderate increase in the cost of borrowing new money has been encountered by corporations, State and local governments, and the Federal Government in recent months. Although the forty-year Treasury bonds issued in February had no counterpart in the 1954 offerings, the rise in borrowing costs is indicated by the increase in market yields on outstanding long-term Treasury issues, shown in the accompanying chart.

The rise in borrowing costs in 1955 tended to reduce the volume of corporate issues designed to refinance outstanding securities. Refunding issues totaled almost 1.3 billion dollars in the last half of 1954, but declined to less than 600 million during the first half of 1955. High-grade corporate bond flotations were successful only through pricing at yields that were higher than in December, and the price declines on outstanding corporate bonds ranged from 10 to 25 basis-points during the first half of the year.

On the other hand, prices of equity securities continued to rise in 1955, reflecting the greater public interest in common stock. Share prices have risen more rapidly than dividends, however, producing a decline in the dividends-price ratio of selected industrial common stocks from an average of 4.74 per cent in June 1954 to 3.71 per cent in June 1955, as shown in the accompanying chart.

During the last half of 1954, stock prices had risen 21 per cent, as measured by the Securities and Exchange Commission composite index, compared with an 18 per cent rise during the previous six months, and speculative tendencies appeared at the end of the year. Stock market credit[3] registered an increase of 28 per cent in the last six months of 1954, against a rise of less than 10 per cent during the previous six months. In response to these developments, the Board of Governors of the Federal Reserve System raised margin requirements on stock exchange transactions from 50 per cent to 60 per cent, effective January 5, 1955. Stock market credit continued to rise, although at a reduced rate, in the months that followed, and margin requirements again were raised, from 60 per cent to 70 per cent, effective April 23, 1955. During the first six months of 1955, stock prices advanced by 15 per cent, and stock market credit increased 13 per cent.

Borrowing costs for State and local governments increased during 1955, as illustrated by the rise in reoffering yields on New Housing Authority issues by 15 to 35 basis-points between January and July. Yields on high-grade, long-term municipal bonds outstanding, which do not fully reflect the rising yields on new issues, increased from 2.04 per cent at the end of 1954 to 2.14 per cent by mid-1955, according to Moody's Investors Service. Shorter-term bond yields registered an even greater rise, from 1.50 per cent to 1.86 per cent, largely because of reduced commercial bank interest in intermediate-term issues that competed with the rising demands for commercial and industrial loans. Since the demand for State and local government bonds did not keep pace with the supply, at least marginal parts of such issues were repriced to compete with corporate and Government securities, in an attempt to broaden the existing market for tax-exempt offerings.

Mortgage financing terms became somewhat less liberal during the first half of 1955, according to recent indications. The proportion of Veterans Administration (VA) loans made with no downpayment and the per cent of VA loans with a term exceeding twenty-five years both showed a slight decline in April and May, after an almost uninterrupted rise during the previous two years. A slight tightening of mortgage credit in recent months is further evidenced by a softening of prices and an increase in yields in the secondary mortgage market since the beginning of the year. This development reflects general market conditions, since there was no major change in the guarantee or insurance provisions of the Veterans Administration or the Federal Housing Administration until July 30, when minimum downpayment requirements were raised by 2 per cent and maximum maturities were shortened to twenty-five years.

[3] As defined in this article, stock market credit comprises customers' net debit balances (excluding those secured by Government securities) reported by New York Stock Exchange firms carrying margin accounts, and loans to others than brokers and dealers by weekly reporting member banks for the purpose of purchasing or carrying securities (excluding loans on Government securities by New York City and Chicago reporting banks).

MONETARY POLICY IN SCANDINAVIA

The recent revival of policies of general monetary control in the Scandinavian countries is of special interest because of the fact that Norway and Sweden, and to a lesser extent Denmark, have relied more extensively than most other Western European countries upon central planning and direct selective measures for guiding their economic progress and maintaining their social-welfare economies. The new policies in Scandinavia thus represent a return to greater reliance on free-market forces after a prolonged period in which these forces were held in partial abeyance.

During the early postwar years, government economic policies in Denmark, Norway, and Sweden had been primarily geared to the encouragement of rapid economic recovery and expansion and the promotion of such welfare goals as better housing. These policies were supported by heavy government expenditures, which in turn involved budget deficits on capital account. Interest rates in Norway and Sweden were kept low and were relatively inflexible in all three countries, with credit controls being for the most part of a selective rather than general character. The pursuit of these policies might well have led to serious foreign exchange drains in Denmark and Norway had there not been Marshall Plan assistance and, after 1950, credit facilities under the European Payments Union (EPU).

During the early phases of the Korean conflict, the vigorous rise in world market demand led to a sharp increase in the exports and foreign exchange reserves of all three countries. Inflationary pressures were strong, and certain restraint measures were taken (including discount rate increases in Denmark and Sweden), but with favorable external trade and payments positions no over-all revision was made of financial and economic policies.

With the leveling-off in world market demand during 1952-53, Norwegian and Swedish exports declined, while the rate of growth of Danish exports was sharply reduced, and industrial production fell in Denmark and Sweden. Moreover, there was widespread apprehension that the recession in the United States would further adversely affect business conditions in Scandinavia. As a result, the governments concerned undertook various measures to encourage business activity; these included lowering the discount rates in Sweden and Denmark in 1953. In late 1953 and early 1954, there was renewed industrial expansion and a revival of export demand. Wages and prices had remained near the levels reached during the inflation that followed the outbreak of hostilities in Korea in June 1950; and with near full-employment, wages increased further. As a result of the renewed expansion of both internal and external demand, increasing inflationary pressures threatened. The strain on available resources resulted in sharp increases in imports not matched by a comparable growth in export earnings. Balances of payments became adverse, and foreign exchange reserves declined.

In the face of these renewed inflationary pressures and balance-of-payments difficulties, restrictive monetary and fiscal policies were adopted in place of a reversion to the direct import and exchange controls that these countries had used extensively during the earlier postwar years. This decision was largely motivated by the fact that import-liberalization commitments among the EPU countries had gradually removed much of the structure of direct import quotas from intra-European trade, and the Scandinavian countries, whose principal export industries had prospered in the atmosphere of freer trade, were unwilling to reverse this process. Both the timing and the scope of the new policies have, however, differed significantly from country to country, depending upon the character of the threatening instability.

Denmark's Foreign Exchange Crisis

The danger signals were raised first in Denmark in the spring of 1954 by a sharp decline in the country's foreign exchange reserves following increased industrial and consumer demand for imports. At the same time, expectations of a poor harvest led to unusually heavy imports of grains and fodders. Restrictive monetary measures, followed by supporting anti-inflationary fiscal action, were undertaken in an effort to cope with the deteriorating external position. The national bank raised its discount rate from 4½ to 5½ per cent on June 22, 1954, and lowered its support prices of government bonds. The commercial banks followed by raising their own interest rates; bond yields rose, and the entire interest rate structure hardened. At the same time, the national bank announced the abandonment of its policy of rediscounting paper from building contractors in an attempt to curb one of the chief sources of credit expansion. Moreover, the government attempted to reduce its housing-subsidy expenditures by various administrative actions, but actual expenditures on new housing were not effectively reduced until the sharp curtailment of the government's over-all housing program in the spring of 1955.

Additional measures undertaken in the fall of 1954 included the encouragement of small private savings through income tax relief on certain "blocked" savings accounts, curbs on instalment buying, administrative cutbacks in budget expenditures (including defense), and increased excise taxes on certain commodities. At the same time, the government attempted to strengthen the credit control instruments of the national bank by introducing legislation empowering it to impose new

variable cash reserve requirements on the commercial banks, including additional reserves for interbank deposits.[1]

By early 1955, it was found that the measures taken thus far had not succeeded in arresting the loss of foreign exchange; at the same time, the wholesale price index and the cost-of-living index continued to edge upward. The inflationary pressures were enhanced by Treasury financing of housing construction; in particular, the government's policy of financing these expenditures by overdrawing the Treasury's current account at the national bank tended to counteract the bank's efforts to reduce the money supply. Housing construction—an area where premium wage payments were already in existence—was thus given a further impetus, and the resulting pressure on wages and prices partially offset the efforts of the national bank and (in other fields) the government to restrain consumption and imports. The underlying inflationary pressures were reflected in the 1954 balance of payments which showed a deficit of 485 million kroner (70.2 million dollars' equivalent), compared with a surplus of 88 million kroner (12.7 million dollars) in 1953, the adverse trade balance alone nearly doubling. Reflecting this shift, the Danish foreign exchange reserve position deteriorated during 1954 by about 500 million kroner.

As a result of these developments, the government was forced to adopt even more stringent measures of restraint. The first round of "crisis measures", passed by the Danish parliament on March 15 of this year, included a 10 to 15 per cent national excise tax on a wide range of consumer goods. However, the cost-of-living index continued to rise, and, with the threat of consequent further wage increases, the government initiated a second round of crisis measures in April, of which the most important were a sharp cut in housing subsidies and an increase in the rents on old buildings. Finally, in May, the national bank merged its rediscount rate with the discount rate by raising the former to 5½ per cent, thus eliminating the special privilege dating from 1939 which had allowed the commercial banks to rediscount business paper at the national bank at ½ per cent below the discount rate.

By June 30, 1955, as a result of continuing import surpluses, the excess of foreign exchange liabilities over assets (including the EPU debt) had increased to 456 million kroner, compared with 172 million at the end of 1954. In addition, the country had very nearly exhausted its credit facilities with the EPU. However, there have recently been indications that the tide may have begun to turn. By mid-July, the national bank's net foreign indebtedness had been slightly cut, and the Treasury had decisively reduced its overdraft with the national bank. Bank lending has declined, new housing starts have been sharply reduced, exports have risen strongly, and the import surplus in the first five months of 1955 was smaller than in the same period of 1954. It would therefore appear that the government's restrictive policies may have begun to produce the desired effects.

[1] The present Danish reserve requirement is a minimum ratio of cash to total liabilities, varying with the size of the bank. There are no mandatory provisions for holding the cash reserves with the national bank.

Anti-inflationary Measures in Norway

In Norway, adherence to a policy of low and inflexible interest rates in the postwar years has been perhaps more rigorous than anywhere else in Western Europe; the Norges Bank discount rate remained unchanged at 2½ per cent from 1946 until 1955. It was believed that only through a policy of continued easy money could the high rate of investment be achieved that would meet Norway's heavy requirements of capital equipment needed to continue the development of the country's natural resources and, at the same time, replace the capital plant destroyed during the war. It was especially emphasized that low interest rates were needed to induce investment in such long-term undertakings as hydroelectric power plants and forestry projects. Even the rapid advance in wages and prices during the second half of 1950 and early 1951 failed to change the government's easy money policy, partly because with rising freight and export earnings there was a substantial increase in Norway's holdings of foreign exchange.

From 1953 to 1955, however, the expansion of the Norwegian economy continued under less favorable circumstances than during the Korean conflict and resulted in serious losses of foreign exchange. Exports were lower in value than during the Korean conflict. Moreover, freight earnings (by which Norway customarily finances about 30 per cent of its import bill) fell as a result of the slump in ocean freight rates which began in 1952 and continued through most of 1954. Finally, with the decline of Marshall Aid, an important source of external funds was virtually eliminated, while the country was rapidly using up its credit facilities with the EPU.

This external imbalance was primarily the result of the continued growth of the country's demand for foreign goods and services that was engendered by the very high rate of capital formation and by the excessively rapid rise in internal demand at a time when external earnings were insufficient to cover the continued rise in imports. There were many indications of the continued excessive internal expansion. Heavy government financing of industry and construction through the special state banks, coupled with a 7 per cent expansion of commercial bank loans and advances during 1954, increased the aggregate money supply, while rising wages increased purchasing power and created a strain on available resources. Prices had advanced only moderately during 1953, but during 1954 the inflationary pressures became more marked; the cost-of-living index rose about 3.6 per cent during April-December and approached the point where a new round of wage increases threatened.

Although Norway's balance of payments on current account had been deteriorating since 1952, the loss of foreign exchange became particularly serious in the fourth quarter of 1954 and the first quarter of 1955. The foreign exchange holdings of

the national bank declined during 1954 only from 719 million kroner (100.6 million dollars' equivalent) to 685 million (95.9 million dollars), but the national bank's net foreign exchange indebtedness (including the EPU debt) rose to 255 million kroner at the year end, compared with a 19 million kroner surplus of foreign exchange assets over liabilities a year earlier. A further sharp increase in the national bank's net foreign debt occurred in the first quarter of 1955, and it reached 432 million kroner at the end of March.

It was during the heavy foreign exchange drain in the first quarter of 1955 that the Norwegian Government reversed its monetary policies in an attempt to correct the situation. On February 14, the Norges Bank discount rate was increased from 2½ to 3½ per cent. The commercial banks followed with a 1 per cent increase in their interest charges on loans, discounts, and promissory notes and in their interest payments on deposits. General monetary control was strengthened on March 1 by the imposition of variable commercial-bank cash reserve requirements.[2] Following the increase in interest payments on bank deposits, the government in May introduced legislation to encourage private savings further by making savings deposits up to 5,000 kroner (but not under 200 kroner) exempt from income and capital taxes. The higher interest rates were supported by a 4 per cent open market bond issue of 400 million kroner in March, and the government borrowed an additional 90 million kroner for three years at 2¾ per cent from the commercial banks. Money market liquidity was further reduced by a 75 million kroner, lottery-type bond issue in April and another similar issue of the same amount in May.

Although interest rates have not been increased on certain state-financed housing loans, housing construction is being restrained by other means. In June, the Norges Bank restricted its authorization of housing loans to be floated in 1955 by the credit associations to 50 million kroner, a drastic reduction from the 130 million of such loans floated in 1954. At the same time, the Norges Bank authorized the credit associations to raise interest rates on their new bond issues from 3 to 4½ per cent.

Early in 1955, the government also took direct measures to restrain new investment. Cutbacks in budgetary expenditures were designed to eliminate the deficit (300 million kroner in the fiscal year 1954-55), while the imposition of a 10 per cent tax on new construction (other than private dwellings and farm buildings) was expected, together with a revision of depreciation allowances, to curtail the investment-engendered demand for domestic resources and for imports. To restrict the demand for foreign exchange and to further curb new investment, new import duties were established in February 1955: a 10 per cent tax was levied on contracts for the construction of ships (including those built in foreign yards) in excess of 2,500 tons, duties on imports of machinery were extended, and a 10 per cent tax was levied on imports of most types of vehicles. Although Norway continued to adhere to her trade-liberalization commitments to the EPU countries, imports not on the liberalization list were reduced, and imports from Eastern European countries were confined to the exact quantities allowed for under the existing bilateral agreements.

It was not expected, however, that the full impact of these measures would be felt immediately, especially insofar as delayed deliveries of capital equipment purchased abroad would continue to require foreign exchange outlays as deliveries were made. Accordingly, to acquire foreign exchange to cover continued imports of capital equipment (mainly ships), Norway borrowed 25 million dollars from the International Bank for Reconstruction and Development and 15 million in the New York market in April. In addition, the city of Oslo borrowed 5.6 million dollars' equivalent in Switzerland, and in June the central government floated a loan of 9.2 million dollars' equivalent in Holland.

Since February there has been a slight increase in the cost-of-living index, but the danger of a renewed price-wage spiral seems to have been thus far averted. There has been an improvement in the foreign exchange situation; Norway had two successive small EPU surpluses in April and May (the first since May 1954), and on July 7 the Norges Bank's net foreign exchange debt was reduced to 221 million kroner. However, the improvement was partly seasonal and partly due to drawings on foreign loans, and thus may not yet accurately reflect the impact of the government's restraint program.

Monetary Restraint in Sweden

During the inflation that followed the Korean outbreak, wholesale prices in Sweden rose, on balance, by about 30 per cent and hourly wage earnings by about 50 per cent. Since that time, inflation has remained a latent threat in Sweden. In 1953 prices edged downward while wages increased slightly, but during 1954 inflationary symptoms were evident again. Industrial production advanced by roughly 5 per cent over 1953, and, with money incomes rising, commodity imports increased by 13 per cent. In October of 1954, the wholesale price index turned upward. With virtually full employment and the likelihood of further increases in the cost-of-living index, wage negotiations threatened to increase labor costs significantly and thus contribute to further price increases. At the same time, bank loans increased 12 per cent during the year and thus contributed to the gradual expansion of the money supply.

In recognition of these inflationary dangers, the government decided in October 1954 to float in the open market a sixteen-year bond issue of 640 million kronor at 4 per cent (½ per cent above the rate on previous issues) in an effort to absorb excess market liquidity and tighten up on money. There was an

[2] The Norwegian requirement is a minimum ratio of cash deposited with the Norges Bank, relative to demand liabilities, and varies according to the size of the bank.

immediate sharp decline in bond prices, reflecting the market's anticipation of a further hardening of money rates. However, the government at that time did not follow through with an over-all tightening of money rates; in particular, the interest rates on housing loans were maintained at low levels.

By the year end, the effects of excess demand were increasingly obvious; in addition to the rising trend of prices, the 330 million kronor (63.8 million dollars' equivalent) current account balance-of-payments surplus of 1953 had been transformed into a deficit of 150 million (29.0 million dollars) in 1954, largely reflecting a virtual doubling of the adverse balance of trade. As a result, there was a decline of some 150 million kronor in the official gold and foreign exchange reserve in 1954, compared with an increase of some 315 million in 1953. While the foreign exchange loss did not seriously deplete Sweden's reserves, it was regarded as a disturbing symptom in the light of domestic inflationary pressures and the prospect of renewed demands for higher wages.

It became clear in early 1955 that wage increases would be larger than anticipated. Compared with an expected annual average growth in man-hour productivity of about 3 per cent, average wages rose by about 8 to 10 per cent and, in some cases, by as much as 18 per cent in the early months of 1955. Such advances in wage rates were of obvious inflationary portent.

In the face of these pressures, the government took direct anti-inflationary measures. In December 1954 it had already obtained the extension of its stand-by price control powers, and early in 1955 permits for industrial investment were reduced and a 12 per cent tax was imposed on the construction of new industrial buildings. Moreover, a 10 per cent tax was levied on automobile purchases, and a bill was passed raising the tax on corporate profits from 40 to 45 per cent in 1955-56 and to 50 per cent in 1956-57. To bolster the incentive to save, the government also proposed a plan for premium payments on certain new "blocked" accounts of small savings depositors. In addition, early in 1955 the Riksbank and the commercial banks reached a new voluntary agreement under which the commercial banks were to hold a larger amount of liquid reserves[3] relative to demand liabilities in order to restrict the growth of bank lending.

These measures were found to be insufficient following the wage increases. Since it was not deemed feasible to impose a general sales tax or raise income taxes, and since the government was still reluctant to permit a rise of the over-all interest rate structure because of the effect on housing rents, attempts were made to gain support for a forced savings scheme that would have immobilized an estimated 1.3 billion kronor during a period of eighteen months. The government failed to win parliamentary approval for this plan, however, and as a final alternative resorted to general monetary control measures on April 19. The Riksbank discount rate was raised from 2¾ to 3¾ per cent (the highest since 1932), while the government announced a twenty-four-year open market bond issue at 4½ per cent, of which more than 400 million kronor were subscribed. At the same time, loan rates on mortgages for housing construction were allowed to rise, and bond prices fell immediately as the general level of interest rates moved upward. The commercial banks raised their loan rates to as high as 6 per cent. In May it was further announced that, unless the commercial banks by the end of July met the voluntary liquid reserve ratios to which they had agreed, the government would impose even higher compulsory liquid reserve requirements.

Whether or not the restraint measures already taken will prove sufficient is not yet certain. With the increase in industrial production, demand for labor and materials is still rising and it is not clear to what extent the underlying inflationary strains have been effectively countered.

Conclusion

Increased reliance upon general monetary controls in the Scandinavian countries represents a significant change in their economic policies. The new policies undertaken in 1954 and the first half of 1955 have had three principal characteristics. There has been an emphasis on general rather than on selective monetary controls; general monetary control has been underpinned by restrictive fiscal policies including direct cutbacks in housing construction; and a general return to quotas, bilateral agreements, and other methods of direct import control has been avoided.

In all three countries, rising money rates have permeated most of the interest rate structure, including housing finance; and, in Norway and Sweden, new government bond issues have carried increased interest rates. In addition, attempts have been made to tighten bank credit further by imposing new variable commercial-bank reserve requirements or by raising existing cash and liquidity ratios. In Sweden, these developments have constituted a particularly sharp break with the past policy of selective credit controls. The adoption of restrictive fiscal policies has involved a no less basic departure from earlier practices, especially in the field of public housing, the promotion of which has been a major aspect of the welfare policies of Scandinavian governments since the war. The reliance on general monetary policy for dealing with the balance-of-payments strains resulting from domestic inflationary pressures, instead of reverting to direct import controls, appears to reflect a determination by the Scandinavian countries to continue their reduction of the direct trade restrictions that have characterized so much of the postwar period.

While the new policies have been introduced to cope with the present inflationary strains, by permitting greater scope for free-market forces these policies may influence long-term developments as well. The shift in emphasis to general monetary control comes at a time when the trend toward a greater

[3] The present Swedish requirement is a minimum ratio of cash deposits held at the Riksbank plus government securities, relative to demand liabilities. These "liquidity ratios" are determined by voluntary agreements between the Riksbank and the commercial banks, and vary with the size of the bank.

liberalization of imports extends to much of the world, and when widespread preparations are being made for greater interconvertibility of currencies. Greater liberalization of trade and convertibility may be expected to further extend the area of the world market in which trade flows and production patterns will be largely determined by international competitive conditions; this will be in sharp contrast to much of the past decade when direct governmental internal and external controls predominated. With increased world import liberalization and greater currency convertibility, the Scandinavian countries, heavily dependent as they are on international trade, must continue to adapt their policies in such a way as to maintain the competitiveness of their export industries. It is thus especially significant that, after a decade of relatively inflexible and selective monetary policies, the Scandinavian countries now appear to be seeking methods of general and flexible monetary control which are in harmony with the trend in international economic relations.

TREASURY FINANCING IN THE FISCAL YEAR 1955

The record of the financial operations of the Federal Government during the past fiscal year (ended June 30) suggests that most of the adjustments from the defense-geared budgets of the Korean period have now been completed. Spending on defense and related programs, which had reached a peak of nearly 53 billion dollars (annual rate) in the fourth quarter of fiscal 1953, settled down to a plateau of roughly 41 billion dollars during the last three quarters of fiscal 1955 (see chart). Treasury revenues also were lower in fiscal 1955, principally as a result of the elimination or reduction of temporary additional tax levies that had been imposed earlier to help finance rearmament.

The Treasury closed its books on the fiscal year with a cash deficit of 2.1 billion dollars, as the Government's cash receipts fell to 67.8 billion dollars (the lowest since fiscal 1951) and as the reduced level of defense spending brought total cash outlays down to about 70 billion dollars. This result compares with an almost balanced budget, on a cash basis, in the preceding fiscal year. On a regular budget basis, however, the 1955 deficit of 4.2 billion shows only a 1.1 billion increase over that of the preceding year. Three quarters of the Treasury's cash deficit was raised by borrowing from the public; the remainder, on the basis of June 30-to-June 30 comparisons, was met by reducing the Treasury's operating cash balance.

Cash Revenues and Expenditures

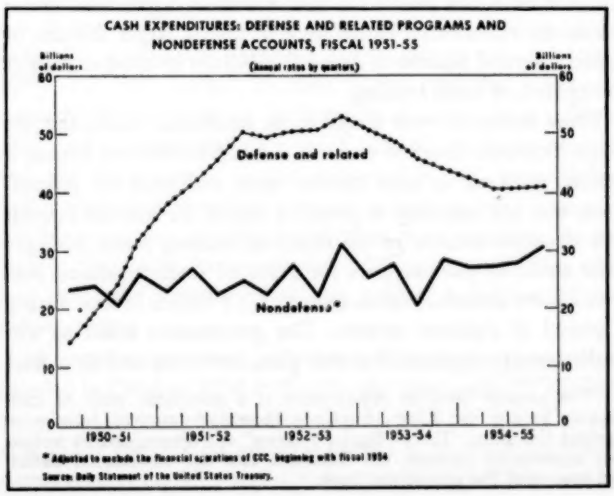
The 4 billion dollar decline in receipts in fiscal 1955, shown in Table I, was brought about principally by statutory reductions in tax rates. Somewhat over half of the 3.6 billion decline in corporate tax receipts reflected the termination of the excess profits tax at the end of 1953 and the tax savings to corporations resulting from the new Internal Revenue Code; the remainder is probably explained by the estimated decline of 11 per cent in corporate profits.[1]

Tax reductions of various kinds also reduced withheld and nonwithheld individual income tax collections by 600 million and 230 million dollars, respectively, between the two years under review. The lapse of the 10 per cent "Korea" tax increase of 1951 at the end of the calendar year 1953 was partly offset, in the case of withheld taxes, by the speed-up in collections encouraged by a penalty on late payments of withheld taxes by employers. The penalty became effective on January 1, 1955 under the new Internal Revenue Code. Both the end of the "Korea" tax increase and the tax reductions—such as those on dividend income—under the new Code depressed collections of nonwithheld income taxes.

A small part of the drop in tax receipts was offset by a 700 million rise in trust fund receipts. This increase stemmed from rising collections of old-age taxes, due to the rate increases effective in the latter half of fiscal 1954 and the broader coverage provided by the Social Security Amendments of 1954.

While the Government's receipts declined, its cash outlays also fell, but not nearly so much. The reduction in outlays was due to a further cutback in defense and related expenditures that was partly offset by a somewhat smaller rise in other expenditures. It is noteworthy, however, that defense costs in fiscal 1955 were stable over most of the year; the monthly variation in these outlays between September 1954 and June 1955 is explainable largely by differences in the number of working days.

About half of the total cost increase in the various nondefense accounts was associated with agricultural price-support



[1] Corporate tax collections in the fiscal years 1954 and 1955 were based on profits earned in periods falling within the four calendar years, 1952-55. However, past experience indicates that better than three quarters of corporate income taxes are paid by calendar-year corporations, whose income years were 1953 and 1954. Between these two years, corporate incomes before taxes fell from 38.3 billion to about 34.0 billion dollars, a decline in the tax base of 4.3 billion.

Table I
Cash Income and Outgo of the United States Treasury
Fiscal Years 1954 and 1955
(In billions of dollars)

Item	1954	1955	Change 1954-55
I. Cash Income—total	71.8	67.8	−4.0
Individual income taxes	32.4	31.6	−0.8
Corporate income taxes	21.8	18.2	−3.6
Trust funds*	6.8	7.5	+0.7
All other	14.2	13.9	−0.3
Refunds	− 3.4	− 3.4	− †
II. Cash outgo—total‡	72.0	69.9	−2.1
Defense and related§	47.2	41.3	−5.9
Nondefense—total	24.8	28.6	+3.8
Interest on debt	4.8	4.9	+0.1
Veterans Administration	4.2	4.1	−0.1
International finance and aid#	1.2	1.3	+0.1
Government corporations‡	0.5	2.7	+2.2
Trust funds*	6.8	8.0	+1.2
All other	7.6	7.7	+0.1
Clearing account for outstanding checks	− 0.3	− 0.1	+0.2
III. Net cash deficit (I-II)	− 0.2	− 2.1	−1.9

Note: Because of rounding, figures do not necessarily add to totals.

* Includes only the major trust funds (i.e., funds covering social security, railroad retirement, veterans' insurance, and civil service retirement).

† Less than 50 million dollars.

‡ The breakdown is based partly on estimates by the Federal Reserve Bank of New York.

§ Includes military outlays by the Defense Department and expenditures for stockpiling, military assistance under the Mutual Security Act, the Atomic Energy Commission, Government maritime activities, the Coast Guard, defense production, and the redemption of Armed Forces leave bonds.

Includes economic and technical assistance under the Mutual Security Act and other foreign assistance programs, as well as the net redemption of notes issued to the International Monetary Fund.

‡ Includes RFC, CCC, Export-Import Bank, FNMA, and other wholly owned Government corporations. Expenditures of the partially owned corporations are included under "All other".

Sources: Compiled from the *Daily Statement of the United States Treasury* and the *Monthly Statement of Receipts and Expenditures of the United States Government.*

programs. The outlays of the disbursing agency under these programs—the Commodity Credit Corporation (CCC)—swelled to more than double their 1954 size. In particular, the special "financial", as opposed to regular crop support, operations were responsible for most of the rise in CCC outlays. The "financial" operations of the CCC relate to the private refinancing of regular crop loans through the sale of "special certificates of interest" to banks and other investors. In each of the two fiscal years under review, some 1.2 billion of special certificates have been sold. As a result of the more restricted availability of funds and the rising rates on marketable securities in the latter part of fiscal 1955, however, banks turned in the major part of the second issue of these certificates for redemption before their maturity date (August 1955). Since most of the first issue of special certificates also was turned in on the maturity date in August 1954, the fiscal 1955 operations in special certificates ended in net redemptions of 330 million, while fiscal 1954 operations had shown net sales of almost 900 million. This turnabout in "financing" operations, aggregating about 1.2 billion, represents the major factor in the rise in CCC expenditures.

The operations of some Government corporations in the field of housing also accounted for increases in fiscal 1955 cash outlays (or decreases in cash income), compared with the prior fiscal year. The Federal National Mortgage Association (FNMA), for example, had instituted a mortgage sale program in fiscal 1954 that required the purchase of a nearly equal amount of mortgages from the public in fiscal 1955. Combined with the other operations of FNMA, this program brought about a 370 million dollar switch from net receipts in fiscal 1954 to net outlays in fiscal 1955.[2] Net receipts from the operations of the Public Housing Administration (PHA) in fiscal 1955 were smaller, because a special refinancing operation had netted some 200 million in the earlier year.

Higher social security costs (shown under "trust funds") resulted mainly from increased benefit payments under Old-Age and Survivors Insurance. One factor behind the growth in such payments was the rising number of older people in the population; another was the increase in benefits under the Social Security Amendments that became effective in October 1954. Outpayments from the unemployment trust funds also were higher, owing to a rise in covered unemployment between the two periods under review.

These results, both on the receipts and expenditures sides, were reasonably in line with the estimates in the *Budget Message* submitted to Congress last January by the President. The estimate of the cash deficit for fiscal 1955 exceeded the actual by only a quarter of a billion dollars. Cash receipts were understated by some 1.1 billion in the *Budget Message;* there were smaller reductions than anticipated in collections among most of the major taxes with, however, a few minor offsetting shifts. The 800 million underestimate of expenditures is traceable to increases in CCC outlays, while various other accounts were somewhat larger or smaller than had been forecast in January.

Comparison with Budget Deficit

The spread of over 2 billion dollars between the cash deficit of 2.1 billion and the budgetary deficit of 4.2 billion is less than it has been for several years; in fiscal years 1953 and 1954, it was 4.4 billion and 3.0 billion, respectively. The deficit tends to be larger on a budgetary than on a cash basis mainly because noncash intragovernmental payments, such as the transfer of interest and other payments to the trust funds, are included in budgetary but not in cash expenditures. Moreover, the cash transactions of the trust funds, which usually show a net receipt of funds from the public, are excluded on a budgetary basis.

In fiscal 1955, however, the usual net cash receipts from trust fund operations turned into a half-billion dollar net cash outlay, thereby narrowing the difference between the two measures of the deficit. This net cash outlay—the first in several years—was the result of a rise in net cash expenditures of the Unemployment Trust Fund to 800 million (from 500 million in the prior year) and a decline in net receipts of the Old-Age and Survivors Insurance Trust Fund. The latter decline is apparently a transitory one, however, stemming from differences in the timing of changes in benefits and changes in the tax base that were written into the Social Security Amend-

[2] The issue of FNMA notes is not included in these cash operations since it was treated as a debt transaction by the Treasury. See section on debt operations below.

ments of 1954. Under these amendments, benefit payments were increased beginning in October 1954, while the increase in collections resulting from the boost in the earnings base (from $3,600 per year to $4,200) will not be felt to any great extent until the latter part of 1955—that is, until fiscal 1956.

Seasonal Factors in Treasury Financing

Over the course of fiscal 1955, the Government's cash operations showed considerable month-to-month fluctuation—similar to that in prior years—particularly on the receipts side. From its inception in 1951, the Mills plan has progressively increased, by 10 per cent per annum, the proportion of a corporation's tax payments falling due in the first six months after the close of its taxable year. Corporate tax collections in the first half of calendar 1955 reflected the culmination of the Mills plan, since the bulk of the corporate taxpayers discharged their entire 1954 tax liability in that period. Under the new Internal Revenue Code, corporations will gradually shift toward more even quarterly payments beginning with 1955 by making rising payments on their estimated full-year liability during the last half of the taxable year.

A somewhat similar seasonal pattern characterizes individual income tax receipts. Although the major share of individual taxes are subject to current withholding arrangements, individual income tax payments continue to be concentrated in the January-June period because final returns and most declarations of estimated tax are filed in that period. As a result, the major share of both corporate and individual income taxes come into the Treasury in the second half of each fiscal year; the first half—July through December—has been a season of relatively lean tax collections and of attendant large borrowing operations by the Treasury.

At the beginning of fiscal 1955, the Treasury was faced with the financing of a July-December cash deficit of more than 8 billion dollars. The Treasurer's balance of 6.8 billion on hand on July 1 was just slightly above one month's anticipated operating disbursements, and it was obvious that the deficit would have to be met largely by borrowing if adequate working balances were to be maintained. The debt subject to the statutory ceiling of 275 billion dollars at the beginning of fiscal 1955 stood at 270.8 billion, permitting only 4.2 billion of additional borrowing. To allow the Treasury to obtain the needed funds, the debt ceiling was temporarily advanced to 281 billion by an act approved August 28, 1954; on that day, the debt subject to ceiling was less than a billion below the limit.

During the first six months of fiscal 1955, some 7.9 billion of new money was raised by the sale of marketable issues. This large volume of borrowing was required not only to help finance the net cash deficit, but also to cover the attrition (the unexchanged portion) of maturing marketable issues as well as some net redemption of Savings bonds and notes. Net cash borrowing of 6.6 billion dollars, along with an increase in noncash borrowing of 830 million dollars (that occurred through the issuance of Treasury obligations to the trust funds and other Government agencies and through the net increase in accrued interest on Savings bonds), boosted the debt subject to the statutory ceiling to 278.3 billion by the end of December.

During the last half of the fiscal year, the Treasury realized a cash surplus of about 6 billion dollars, which was used to reduce debt held by the public by 5 billion dollars and to add about 1 billion to the Treasury's end-of-December working balance. Because of the interaction of several types of borrowing undertaken in this period, however, the debt subject to the ceiling declined only to 273.9 billion by the end of fiscal 1955 when the statutory limit was to revert to 275 billion.[3] Since at that point the Treasury's lean tax season was again at hand, the temporary 6 billion increase was extended by Congress to June 30, 1956.

Changes in the Public Debt

The Federal Government's net cash borrowing during fiscal 1955 amounted to 1.6 billion dollars, of which about 700 million was undertaken by Government corporations[4] and 900 million represented Treasury borrowing directly from the public. The latter increase in direct Treasury debt was the product of 4.7 billion of net sales of marketable issues, partly offset by 3.2 billion of Savings notes redemptions and by other redemptions; Savings bond operations were about in balance for the year. In combination with this rise in the cash portion of the public debt, the 2.2 billion increase in the noncash portion—mainly borrowing from the trust funds and the increment of accrued interest on Savings bonds—brought the gross public debt to 274.4 billion on June 30 (see Table II).

Flotations of new marketable issues (excluding rollovers of regular Treasury bills) amounted to over 55 billion dollars, or only 3.5 billion less than the record level of fiscal 1954. Almost 14 billion of new-money borrowing was carried out via two issues of tax anticipation certificates and two note issues. In addition, nearly 42 billion of maturing and called issues were refunded into new marketable issues. Altogether, holders of 95 per cent of the total amount of marketable issues that matured or were called within the fiscal year exchanged their old securities for new.

The 5 per cent average rate of attrition (or cash redemption) was about twice as high as in fiscal 1954. However, the higher rate this year was due mainly to the May refunding, on which attrition was over 18 per cent; cash redemptions in the three other exchanges averaged only 3 per cent. Holders of the maturing issue in the May refunding were offered only a fifteen-month note, while the other exchanges had all been "package offerings" combining notes or certificates with bonds.

[3] The 4.3 billion decline in the debt subject to ceiling reflected net cash redemption of 5.7 billion of gross (Treasury) debt, partly offset by 1.4 billion of noncash borrowing. The difference between net cash redemption of *gross debt* and the net redemption of *debt held by the public* was accounted for by 720 million of net sales of Government corporation issues, mainly FNMA notes.

[4] Of the total borrowing by Government corporations, the sale of FNMA notes accounted for 570 million.

An important objective of debt management during the past fiscal year, as in the year previous, was the lengthening of the average maturity in the marketable sector. A measure of the Treasury's accomplishment in this direction is the increase in average maturity by three months, to five years and eleven months; this compares with an increase by two months in fiscal 1954. The debt stretch-out in fiscal 1955 was associated with an emphasis on intermediate-term issues: issues maturing in one to ten years comprised 59 per cent of total new marketable issues, while the longer-term issue—the new forty-year bond—amounted to only 3.5 per cent of the total. The statistical "leverage" of the latter issue is considerable, however. If a short-term issue had been substituted, the average maturity of the marketable debt would have declined (rather than increased) by about three months. On the other hand, the statistics on the average maturity of the debt do not show the extent to which debt operations in the past year have reduced the volume of debt requiring refunding in any one year. Whereas maturities requiring refunding totaled 40.6 billion in fiscal 1955, exclusive of bills, the issues maturing in the current fiscal year come to only 30.2 billion dollars.

Table II
Financing of Cash Deficit, Fiscal Years 1954 and 1955
(In billions of dollars)

Item	1954	1955
Cash deficit(+)	+ 0.2	+ 2.1
Change in Treasurer's balance	+ 2.1*	− 0.6
Cash borrowing from the public, net	+ 2.3	+ 1.6
Net sales (−) or redemptions (+) of securities by Government corporations	+ 0.2	− 0.7
Cash borrowing on gross public debt, net	+ 2.5	+ 0.9
Noncash borrowing on gross public debt, net	+ 2.7	+ 2.2
Increase in the gross public debt	+ 5.2	+ 3.1
Gross public debt, end of year†	271.3	274.4
Treasurer's balance, end of year	6.8	6.2

Note: Because of rounding, figures do not necessarily add to totals.
* Reflects the 500 million reduction in gold for the purpose of retiring debt.
† Includes a small amount of debt not subject to the statutory ceiling.
Source: *Daily Statement of the United States Treasury.*

DEPARTMENT STORE TRADE

Second District department store sales, on a seasonally adjusted daily-average basis, rose an estimated 2 per cent in July to a level 3 per cent higher than a year ago. The increased sales were attributable in part to the fact that some stores that closed on Saturdays in July last year remained open on Saturdays this year. Also, this July's hot, sunny weather stimulated sales of seasonal items, such as air conditioners and electric fans.

Volume and Average Value of Transactions at New York City Department Stores

Net dollar sales of New York City department stores in the first half of 1955 equaled sales in the first six months of 1954. But the unchanged dollar volume of 1955's first half represented a somewhat smaller number of purchases, of somewhat higher-priced merchandise, than in the earlier period.

A selected sample of New York City department stores reports data regularly to this Bank on gross transactions (total number of sales checks issued) and net dollar sales (gross sales less returns and allowances).[1] From these data, the average value per transaction can be computed. Changes in average value per transaction give some indication of consumer tendencies to buy higher-priced or lower-priced merchandise.

From mid-1952 through mid-1954, the average value per transaction at New York City department stores rose steadily even though prices of department store merchandise generally were gently declining, indicating a steady tendency of New York City consumers to "trade up" from lower to higher-priced lines in their dealings at department stores. Through the end of 1953, however, the number of transactions at department stores declined more than the average value per transaction rose, with the result that the net dollar sales of New York City department stores fell steadily.

In the first half of 1954, the rise in average value per transaction was just enough to offset the effect on sales of the continued decline in number of transactions. And in 1954's last half, the downward trend in transactions at last reversed itself; gross transactions and average value per transaction both increased, as the accompanying table indicates, and as a result net dollar sales also increased over the corresponding period a year earlier.

[1] For discussions of the limitations of these data see this *Review*, August 1954, p. 115, and November 1953, p. 172.

Department and Apparel Store Sales and Stocks, Second Federal Reserve District, Percentage Change from the Preceding Year

Area	Net sales			Stocks on hand June 30, 1955
	June 1955	Jan. through June 1955	Feb. through June 1955	
Department stores, Second District	+ 1	+ 2	+ 1	− 1
New York—Northeastern New Jersey Metropolitan Area	+ 1	+ 2	+ 1	− 2
New York City	0	0	0	+ 3
Nassau County	—	—	—	—
Westchester County	+ 7	+14	+13	+10
Northern New Jersey	+ 1	+ 1	+ 1	+ 3
Newark	− 2	− 2	− 2	—
Fairfield County	+ 6	+ 6	+ 6	+ 7
Bridgeport	+ 5	+ 4	+ 4	—
Lower Hudson River Valley	+ 4	+ 9	+ 9	+ 5
Poughkeepsie	+ 6	+10	+10	+ 5
Upper Hudson River Valley	+ 2	+ 1	+ 1	+ 4
Albany-Schenectady-Troy Metropolitan Area	+ 1	+ 1	0	+ 4
Albany	+ 4	+ 5	+ 4	+ 5
Schenectady	− 3	− 5	− 4	+ 3
Central New York State	+ 2	+ 2	+ 2	+ 1
Utica-Rome Metropolitan Area	− 2	+ 1	+ 1	+ 8
Utica	− 1	+ 4	+ 4	+16
Syracuse Metropolitan Area	+ 3	+ 3	+ 2	− 1
Northern New York State	+ 5	+11	+11	+ 1
Southern New York State	+ 2	0	+ 1	− 2
Binghamton Metropolitan Area	+ 5	+ 3	+ 3	+ 1
Western New York State	+ 2	+ 2	+ 2	+ 1
Buffalo Metropolitan Area	+ 1	+ 2	+ 2	+ 2
Buffalo	+ 1	+ 1	+ 2	+ 1
Niagara Falls	+ 2	+ 2	+ 1	—
Rochester Metropolitan Area	+ 3	+ 2	+ 2	0
Apparel stores (chiefly New York City)	+ 2	+ 4	+ 3	+ 7

In the first six months of 1955, average value per transaction continued to increase, indicating that the consumer tendency to "trade up" still persisted, though prices of department store goods had continued to decline. The rise in average value per transaction in 1955's first half was slight (1 per cent), however, and possibly reflected either a weakening of consumers' "trading up" tendencies or the offsetting effect on these tendencies of the steady, three-year decline in the prices of department store merchandise. In addition, the number of transactions fell again in the first half of the year. The decline in transactions volume was also slight (1 per cent), and the stores' net dollar sales remained the same as in the first six months of 1954.

Gross Transactions, Net Dollar Sales, Average Value per Transaction, and Prices at New York City Department Stores, 1954-55
(Percentage change from preceding year)

Period	Gross transactions	Net dollar sales	Average value per transaction	Prices*
1954				
January-June	− 1	0	+ 1	− 1
July	− 3	− 2	+ 2	− 1
August	+ 5	+ 8	+ 2	− 1
September	+ 3	+ 6	+ 3	− 2
October	− 4	− 6	− 2	− 2
November	+ 6	+12	+ 6	− 2
December	+ 3	+ 5	+ 2	− 2
July-December	+ 2	+ 4	+ 2	− 2
1955				
January	+ 2	+ 4	+ 3	− 2
February	− 3	− 3	0	− 2
March	0	+ 5	+ 5	− 2
April	− 6	− 7	− 1	− 2
May	+ 2	+ 2	0	− 2
June	− 2	0	+ 2	− 3
January-June	− 1	0	+ 1	− 2

* Weighted average of apparel and homefurnishings prices for New York City, computed from data of the Bureau of Labor Statistics.

Indexes of Department Store Sales and Stocks
Second Federal Reserve District
(1947-49 average=100 per cent)

Item	1955			1954
	June	May	April	June
Sales (average daily), unadjusted	98	99	97	97r
Sales (average daily), seasonally adjusted	101	101	101	100r
Stocks, unadjusted	105	113	117	105r
Stocks, seasonally adjusted	112	110	111	112r

r Revised.

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1955			1954	Percentage change	
		June	May	April	June	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1947-49 = 100	139p	138	136	124	+ 1	+12
Electric power output*	1947-49 = 100	197	194	189	173	+ 1	+14
Ton-miles of railway freight*	1947-49 = 100	—	105	100	90	+ 5	+14
Manufacturers' sales*‡	billions of $	27.1p	26.6	26.0	23.3	+ 2	+16
Manufacturers' inventories*‡	billions of $	43.8p	43.5	43.3	44.2	+ 1	− 1
Manufacturers' new orders, total*‡	billions of $	27.8p	27.7	26.1	22.0	#	+26
Manufacturers' new orders, durable goods*‡	billions of $	14.1p	14.3	12.9	9.8	− 1	+44
Retail sales*	billions of $	—	15.3p	15.3	14.4	#	+ 9
Residential construction contracts*	1947-49 = 100	288p	280	286	227	+ 3	+27
Nonresidential construction contracts*	1947-49 = 100	229p	221	230	193	+ 4	+19
Prices, wages, and employment							
Basic commodity prices†	1947-49 = 100	90.2	89.2	90.0	92.3	+ 1	− 2
Wholesale prices†	1947-49 = 100	110.3p	109.9	110.5	110.0	#	#
Consumer prices†	1947-49 = 100	114.4	114.2	114.2	115.1	#	− 1
Personal income (annual rate)*‡	billions of $	—	301.1p	298.9	286.7	+ 1	+ 5
Composite index of wages and salaries*	1939 = 100	—	264p	263	257	#	+ 3
Nonagricultural employment*§	thousands	49,330p	49,214p	48,881	48,170	#	+ 2
Manufacturing employment*§	thousands	16,588p	16,540p	16,380	15,942	#	+ 4
Average hours worked per week, manufacturing†	hours	40.7p	40.8	40.2	39.5r	#	+ 3
Unemployment	thousands	2,679	2,489	2,962	3,347	+ 8	−20
Banking and finance							
Total investments of all commercial banks	millions of $	79,800p	81,620p	82,570p	79,046	− 2	+ 1
Total loans of all commercial banks	millions of $	75,730p	73,900p	72,940p	67,337	+ 2	+12
Total demand deposits adjusted	millions of $	103,350p	103,410p	104,500p	98,132	#	+ 5
Currency outside the Treasury and Federal Reserve Banks*	millions of $	30,200p	30,102	30,047	30,006	#	+ 1
Bank debits (337 centers)*¶	millions of $	72,344	71,060	68,207	64,429r	+ 2	+12
Velocity of demand deposits (337 centers)*¶	1947-49 = 100	130.0p	131.3	123.8	123.1	− 1	+ 6
Consumer instalment credit outstanding†	millions of $	32,471	31,568	30,655	28,666	+ 3	+13
United States Government finance (other than borrowing)							
Cash income	millions of $	11,045	5,547	3,651	11,278r	+99	− 2
Cash outgo	millions of $	6,677	6,278	5,355	6,894r	+ 6	− 3
National defense expenditures	millions of $	3,762	3,302	3,177	3,912r	+14	− 4
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	149	144	145	139	+ 3	+ 7
Residential construction contracts*	1947-49 = 100	—	211p	225	221	− 6	− 5
Nonresidential construction contracts*	1947-49 = 100	—	249p	223	213	+12	+10
Consumer prices (New York City)†	1947-49 = 100	111.8	111.8	112.3	112.9	#	− 1
Nonagricultural employment*	thousands	—	7,485.1p	7,465.5	7,492.9r	#	#
Manufacturing employment*	thousands	—	2,607.6p	2,588.8	2,657.0r	+ 1	− 2
Bank debits (New York City)*	millions of $	62,624	63,481	57,634	60,153	− 1	+ 4
Bank debits (Second District excluding New York City)*	millions of $	4,800	4,606	4,568	4,347	+ 4	+10
Velocity of demand deposits (New York City)*	1947-49 = 100	158.0	167.2	144.7	156.1	− 6	+ 1

Note: Latest data available as of noon, August 1, 1955.
p Preliminary. r Revised.
* Adjusted for seasonal variation.
† Seasonal variations believed to be minor; no adjustment made.
# Change of less than 0.5 per cent.
‡ Revised series. Back data available from U. S. Department of Commerce.
§ Revised series. Back data available from U. S. Bureau of Labor Statistics.
¶ The number of reporting centers was reduced by one in May when two centers were combined. Current figures are comparable with those published previously.

Source: A description of these series and their sources is available from the Domestic Research Division, Federal Reserve Bank of New York, on request.